

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



FILED

Application of SFPP, L.P.
Pursuant to Commission Resolution No. 0-0043
issued October 24, 2002.

Application No. 03-02-027
(Filed February 21, 2003) 06-13-07
04:59 PM

ARCO Products Co., *et al.*,
Complainants,
v.

Case No. 97-04-025

Santa Fe Pacific Pipeline, L.P.,
Defendant.

ARCO Products Co., *et al.*,
Complainants,
v.

Case No. 00-04-013

SFPP, L.P.,
Defendant.

In the Matter of Application of SFPP, L.P.
For Authority to Justify Its Rates For
Intrastate Transportation of Refined Petroleum
Products on the Basis of Market Factors

Application No. 00-03-044

Application of SFPP, L.P. for authority, pursuant to
Public Utilities Code Section 455.3, to increase its rates
for pipeline transportation services within California.

Application No. A.04-11-017

Application of SFPP, L.P. for authority, pursuant to
Public Utilities Code Section 455.3, to increase its rates
for pipeline transportation services within California.

Application No. A.06-01-015

Application of SFPP, L.P. (PLC-9 Oil) for authority,
pursuant to Public Utilities Code Section 455.3,
to increase its rates for pipeline transportation services
within California through implementation of an
Ultra Low Sulfur Diesel Surcharge.

Application No. A.06-08-028

Tesoro Refining and Marketing Company,
Complainant,
v.

Case No. 06-12-031

SFPP, L.P.,
Defendant.

(Formally Consolidated)

**RESPONSE OF
INDICATED SHIPPERS TO
MOTION OF SFPP, L.P. TO SUBMIT LATE-FILED EXHIBIT**

Pursuant to Rule 11.1(e) of the Commission's Rules of Practice and Procedure, BP West Coast Products LLC, Chevron Products Company, ExxonMobil Oil Corporation, Ultramar Inc., and Valero Marketing & Supply Company (together, "Indicated Shippers") respectfully request that the Presiding Administrative Law Judge ("Presiding Judge") reject the Letter of Credit tendered by SFPP in this proceeding on May 29, 2007 with its motion to set aside submission of the record.

On May 29, 2007, SFPP, L.P. ("SFPP") filed a "Motion to Submit Late-Filed Exhibit." SFPP's Motion was filed as a result of the Commission's directive to SFPP in Decision No. 07-05-061, issued on May 24, 2007, in Application Nos. A.06-09-016 and A.06-09-021, to obtain a letter of credit sufficient to guarantee payments of up to \$100 million in potential refunds and reparations to shippers. SFPP's parents, Kinder Morgan Inc. and Knight Holdco L.L.C. (together "Joint Applicants"), submitted the LOC in their Compliance Filing in those proceedings on May 29, 2007 ("Joint Applicants' LOC").

Contemporaneously with the instant filing, Indicated Shippers are filing their Motion for Leave to Object to the Compliance Filing, specifically objecting to the Joint Applicants' LOC for failure to comply with the Commission's decision in D.07-05-061, and proposing instead a substitute LOC acceptable to Indicated Shippers ("Indicated Shippers' LOC"). A copy of the motion, with its attached exhibits, is attached hereto as Appendix A. Accordingly, Indicated Shippers object here to SFPP's LOC for the same reasons as stated in our Objection to Joint Applicants' Compliance filing in Docket Nos. A.06-09-016, *et al.*, and request that Indicated Shippers' LOC, attached to the Motion as Exhibit A, be accepted. In the alternative, acceptance

of any LOC in these consolidated rate proceedings could be made subject to whatever LOC is ultimately accepted in the transfer of control proceedings in A.06-09-16, *et al.*

WHEREFORE, Indicated Shippers respectfully request that the Presiding Judge reject Joint Applicants' LOC and accept Indicated Shippers' LOC, or, in the alternative, make acceptance of an LOC in these rate proceedings subject to the outcome of the transfer of control proceedings.

Respectfully submitted,

BP West Coast Products LLC, Chevron
Products Company, ExxonMobil Oil Corporation,
Ultramar, Inc., and
Valero Marketing & Supply Company

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*Counsel for BP West Coast Products LLC
and ExxonMobil Oil Corporation*

Dated: June 13, 2007

APPENDIX A

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Joint Application of SFPP, L.P. (PLC-9 Oil), CALNEV PIPE LINE, L.L.C., KINDER MORGAN, INC., and KNIGHT HOLDCO LLC for Review and Approval under Public Utilities Code Section 854 of the Transfer of Control of SFPP, L.P. and CALNEV PIPE LINE, L.L.C.).

Application No. A.06-09-016

Joint Application of The Goldman Sachs Group, Inc., American International Group, Inc., Carlyle Partners IV, L.P., Carlyle/Riverstone Global Energy and Power Fund III, L.P., for Exemption Under Section 852 of the Public Utilities Code for Certain Future Transactions Involving Non-Controlling Interests in California Public Utilities.

Application No. A.06-09-021

**MOTION FOR LEAVE TO FILE
OBJECTION OF INDICATED SHIPPERS
TO COMPLIANCE FILING OF
KINDER MORGAN INC. AND KNIGHT HOLDCO L.L.C.
OF "LETTER OF CREDIT"**

Pursuant to Rule 11.1, BP West Coast Products LLC, Chevron Products Company, ExxonMobil Oil Corporation, Ultramar Inc., and Valero Marketing & Supply Company (together, "Indicated Shippers") hereby submit their Motion for Leave to File Objection to the Compliance Filing of Kinder Morgan Inc. ("KMI") and Knight Holdco LLC ("Knight Holdco") (together, "Joint Applicants") and hereby object to the Letter of Credit ("LOC") tendered by Joint Applicants.

On May 29, 2007, Joint Applicants submitted their compliance filing in the above-captioned dockets and also submitted the LOC as a "late-filed" exhibit in Docket Nos. C.97-04-024, *et al.* In their compliance filing, KMI and Knight Holdco assert that the conditions set forth in ordering Paragraph 14 of D.07-05-061 have been satisfied. Indicated

Shippers disagree. The LOC filed by Joint Applicants is not in compliance with Paragraph 14 and therefore should be rejected by the Commission.

Indicated Shippers submit a “redlined” LOC as Exhibit A attached hereto reflecting their views of adjustments needed in order to comply with Ordering Paragraph 14. Indicated Shippers respectfully request the Commission to reject the LOC filed by Joint Applicants and require Joint Applicants to submit an LOC that complies with the Commission’s directives in the form of the LOC submitted herewith by Indicated Shippers, or, in the alternative such form as may be prescribed by the Presiding Judge following a hearing.

I.

ARGUMENT

A. The Tendered Letter Of Credit Is Not In Compliance With Ordering Paragraph 14 And Should Be Rejected.

1. Ordering Paragraph 14 of D.07-05-061 recites:

14. Within 60 days of the effective date of today’s decision, SFPP shall submit to the Director of the Commission’s Energy Division and shall file as a “late-filed exhibit” in C.97-04-024 et al. a letter of credit from a national bank sufficient to pay potential California jurisdictional rate refunds of \$100 million. The letter of credit shall be designed, in form and in substance, to convey the direct obligation of the bank to any Shippers entitled to refunds, notwithstanding the insolvency or credit risk of the entity or entities legally responsible for repayment of the letter of credit. No costs associated with the letter of credit shall be recovered in future rates charged to pipeline customers.

2. First Inconsistency: the LOC is not a direct obligation of the bank to any Shippers entitled to refunds, as required.

a. In the tendered LOC, there is a condition precedent to the liability of the bank to pay refunds to shippers: shippers must try to collect “reparations” from SFPP before turning to the Bank.

This is not an LOC on the bank with the beneficiaries the shippers. Instead, this is an agreement to underwrite any failure of SFPP to pay the refunds after litigation or bankruptcy or whatever other means “required by law” to collect from SFPP have been exhausted by Shippers.

Ordering Paragraph 14 clearly states that the obligation will be a direct obligation of the bank: “The letter of credit shall be designed, in form and in substance, to convey the direct obligation of the bank to any Shippers entitled to refunds”

Instead, the LOC on page 3 in condition A(II) reads:

(II) Such reparations have not been paid by SFPP, L.P. as required by law within the time period required by law.

JA’s LOC at 3.

Here are the several problems on this point.

b. Contrary to Ordering Paragraph 14, there is no direct obligation of the bank to pay shippers. The “direct obligation” is that of SFPP. This is in direct conflict with the Order. The tendered LOC is only a standby LOC, not a “primary” liability of the bank.

c. Contrary to Ordering Paragraph 14, which calls for \$100,000,000 to cover “refunds,” the tendered letter covers “reparations.” Usually the former term relates to rate cases and the latter term to complaint cases. There is no point in having any ambiguity as a loophole built in. Both “refunds” and “reparations” should be specified now, since there is no way to anticipate what future Commission orders may cover.

d. Contrary to Ordering Paragraph 14, which requires only a showing that shippers are entitled to refunds to trigger the payment obligation, the LOC requires or putatively requires that shippers prove non-payment by SFPP “as required by law” and not “within the time period required by law.” What does this mean?

Must shippers sue to collect the refunds and await a final judicial judgment no longer subject to further review?

Does “as required by law” encompass a bankruptcy filing that might take SFPP off the hook for payment and therefore excuse the bank as well? Upon the filing of a bankruptcy by SFPP, it would not be required to pay anything unless ordered to do so by the Bankruptcy Court, and thus the LOC would not be effective.

Do these words about “law” apply to a CPUC order?

All of this is the stuff of litigation, as compared to the simple showing of a Commission order that shippers are entitled to refunds. This is all that the Order requires, and the tendered letter of credit designs around the Order.

3. Second Inconsistency: Paragraph 14 requires the bank to assume direct liability to the shippers “notwithstanding the insolvency or credit risk of the entity or entities legally responsible for repayment of the letter of credit.”

We find nothing in the draft as tendered to the Commission to effect this obligation, so we have added one as follows: if any of the entities which even might be legally responsible for repayment to the bank of the LOC is put into bankruptcy, the beneficiary can draw down the entire amount immediately.

In this connection, two new entities in the pyramid have now appeared. In the Schedule 13D/A filed on June 11, 2007, at the SEC by Kinder Morgan Energy Partners, L.P. (“KMEP”), KMEP reports that Knight Holdco DE Inc. and Knight Midco Inc. have been inserted between Knight Holdco LLC and Kinder Morgan Inc. in the prganizational structure. Indicated Shippers have no idea what or why these entities have been inserted nor what, if anything, their powers are, but they ought to be included with the rest of the pyramid in the LOC and the corporate and partnership warranties required by the Order. Exhibit B hereto shows the updated organization chart, as best we can tell.

4. Third Inconsistency: Paragraph 14 requires that the LOC be in effect “sufficient to pay potential California jurisdictional rate refunds.” In the tendered LOC, there are opportunities for the bank to avoid liability, in three basic ways.

(a) The provisions for opting out of continuing to honor the letter or credit are loosely drawn; and

(b) The bank can opt out by giving notice to any one of the hundreds of employees at the CPUC; and

(c) There is no provision for partial drawdowns, in case the Commission orders come out sequentially.

We have suggested ways to avoid these problems.

5. Another issue that the Commission might wish to consider. Indicated Shippers had suggested that the bank normally used as escrow agent between Kinder Morgan and shippers be named as beneficiary. Joint Applicants chose to make the Commission the beneficiary on behalf of all shippers. Indicated Shippers have no objection whatsoever to the Commission being the beneficiary. It is, however, a time consuming undertaking, including identifying and locating shippers who may no longer be in business and keeping track of receipts and payments, and interest, if any. So we added a provision that “this letter of credit is transferable,” thus making it possible for the Commission, should it wish to do so, to retain an escrow agent to do the ministerial work under the supervision of the Commission.

B. Proposed Form of Letter of Credit.

Indicated Shippers take the liberty of tendering a modification of the LOC tendered by Joint Applicants in an effort to cure the failure of Joint Applicants to implement Paragraph 14.

The modification is attached hereto in “redline,” at Exhibit A, so that our modifications to the Joint Applicants’ LOC will stand out.

Perhaps Joint Applicants will accept this form and perhaps the Commission will find this draft correct.

C. In the Alternative, A Hearing Should Be Convened to Determine the Proper Form of a Letter of Credit that Meets the Standards of Paragraph 14.

In the alternative, Indicated Shippers continue to object to the LOC tendered by the Joint Applicants and respectfully request that a hearing be convened in order to take evidence on the proper form of a letter of credit that meets the standards of Paragraph 14.

II.

CONCLUSION

Indicated Shippers respectfully request that the Commission reject the LOC tendered by Joint Applicants and order Joint Applicants to provide a LOC that complies with the Commission's objective of ensuring payment to shippers of refunds and reparations ordered directly by a national bank, without loopholes, such as the LOC tendered herewith. Accordingly, Indicated Shippers request that the Commission approve Indicated Shippers' proposed LOC tendered herewith or, in the alternative, set a hearing to determine the proper form of the Letter of Credit.

Respectfully submitted,

BP West Coast Products LLC, Chevron
Products Company, ExxonMobil Oil Corporation,
Ultramar, Inc., and
Valero Marketing & Supply Company

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Dated: June 13, 2007

EXHIBIT A

May 25, 2007
OUR L/C NO.: TPTS-331946

TO:
CALIFORNIA PUBLIC UTILITIES
COMMISSION
(REFER TO LC TEXT)
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102

APPLICANT:
SFPP, L.P.
500 DALLAS, SUITE 1000
HOUSTON, TX 77002

WE HAVE ESTABLISHED OUR IRREVOCABLE STANDBY LETTER OF CREDIT IN YOUR FAVOR
AS DETAILED HEREIN SUBJECT TO ISP98

DATE OF ISSUE: May 25, 2007
DOCUMENTARY CREDIT NUMBER: TPTS-331946

BENEFICIARY: CALIFORNIA PUBLIC UTILITIES
COMMISSION
(REFER TO LC TEXT)
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102

APPLICANT: SFPP, L.P.
500 DALLAS, SUITE 1000
HOUSTON, TX 77002

DATE AND PLACE OF EXPIRY: MAY 30, 2008
AT OUR COUNTER

DOCUMENTARY CREDIT AMOUNT: USD100,000,000.00

AVAILABLE WITH: JPMORGAN CHASE BANK, N.A.
BY PAYMENT

IT IS A CONDITION OF THIS LETTER OF CREDIT THAT IT SHALL BE AUTOMATICALLY
EXTENDED WITHOUT AMENDMENT FOR ADDITIONAL 12 MONTH PERIODS FROM THE
PRESENT OR EACH FUTURE EXPIRATION DATE, UNLESS AT LEAST 3060 DAYS PRIOR TO THE
CURRENT EXPIRY DATE WE SEND NOTICE IN WRITING TO YOU IN DUPLICATE, ONE TO THE

ATTENTION OF THE PRESIDENT OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION AND ONE TO THE DOCKET CLERK, BOTH REFERENCING DOCKET NO. A-06-09-016, AT 505 VAN NESS AVENUE, ROOM 2000, SAN FRANCISCO, CA 94102 VIA SWIFT, TELEX,
OR HAND DELIVERY AT THE ABOVE ADDRESS, THAT WE ELECT NOT TO AUTOMATICALLY EXTEND THIS LETTER OF CREDIT FOR ANY ADDITIONAL PERIOD. UPON SUCH NOTICE TO YOU, YOU MAY DRAW ON US AT SIGHT FOR AN AMOUNT NOT TO EXCEED THE BALANCE REMAINING IN THIS LETTER OF CREDIT WITHIN THE THEN-APPLICABLE EXPIRY DATE, BY YOUR SWIFT OR PRESENTATION OF YOUR DRAFT AND DATED STATEMENT PURPORTEDLY SIGNED BY ONE OF YOUR OFFICIALS READING EXACTLY AS FOLLOWS:

"THE AMOUNT OF THIS DRAWING USD.....UNDER JPMORGAN CHASE BANK, N.A. LETTER OF CREDIT NUMBER _____TPTS-331946 REPRESENTS FUNDS DUE US AS WE HAVE RECEIVED NOTICE FROM JPMORGAN CHASE BANK, N.A. OF THEIR DECISION NOT TO AUTOMATICALLY EXTEND LETTER OF CREDIT NUMBER _____TPTS-331946-AND THE UNDERLYING OBLIGATION REMAINS OUTSTANDING.

IN THE EVENT THIS LETTER OF CREDIT IS SUBSEQUENTLY AMENDED BY US TO RESCIND A NOTICE OF NON-EXTENSION AND TO EXTEND THE EXPIRY DATE HEREOF TO A FUTURE DATE, SUCH EXTENSION SHALL BE FOR THAT SINGLE PERIOD ONLY AND THIS LETTER OF CREDIT WILL NOT BE SUBJECT TO ANY FUTURE AUTOMATIC EXTENSIONS UNLESS AN AUTOMATIC EXTENSION PROVISION IS EXPRESSLY INCORPORATED INTO SUCH AMENDMENT. IN THE EVENT SUCH AN AUTOMATIC EXTENSION PROVISION IS NOT SO INCORPORATED THEN YOU MAY DRAW ON US AT SIGHT AT ANY TIME WITHIN THE THEN-APPLICABLE EXPIRY DATE AS PROVIDED ABOVE IN THE IMMEDIATELY PRECEDING TWO PARAGRAPHS.

ADDITIONAL DETAILS:

BENEFICIARY'S COMPLETE NAME AND ADDRESS:
CALIFORNIA PUBLIC UTILITIES COMMISSION
HEADQUARTERS OFFICE
ATTN: DIRECTOR OF ENERGY DIVISION (415) 703-2782
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102

THIS LETTER OF CREDIT IS AVAILABLE WITH JPMORGAN CHASE BANK, N.A. AGAINST PRESENTATION OF YOUR DRAFT AT SIGHT DRAWN ON JPMORGAN CHASE BANK, N.A., WHEN ACCOMPANIED BY BENEFICIARY'S DATED STATEMENT PURPORTEDLY SIGNED BY ONE OF ITS OFFICIALS READING AS FOLLOWS (EITHER (A) OR (B)):

(A)
"THE AMOUNT OF THIS DRAWING USD , UNDER JPMORGAN CHASE BANK, N.A. LETTER OF CREDIT NO. TPTS-331946-_____REPRESENTS FUNDS DUE US AS:

~~(4)~~-THE CPUC HAS ISSUED A-ONE OR MORE FINAL, NON-APPEALABLE ORDERS (EACH, AN "ORDER") THAT RATE REFUNDS

OR REPARATIONS ARE OWED TO SHIPPERS IN CONNECTION WITH THE FOLLOWING CPUC RATE PROCEEDINGS: CASE NO. 97-04-025; APPLICATION NO. 00-03-044; CASE NO. 00-04-013; APPLICATION NO. 03-02-027; APPLICATION NO. 04-11-017; APPLICATION NO. 06-01-015; APPLICATION NO. 06-08-028; CASE NO. 06-12-031.”

~~(II) SUCH REPARATIONS HAVE NOT BEEN PAID BY SFPP, L.P. AS REQUIRED BY LAW WITHIN THE TIME PERIOD REQUIRED BY LAW.~~

AND

~~(III) THE CPUC IS THEREFORE ENTITLED TO DRAW UNDER THE LETTER OF CREDIT OR (B)~~

“THE AMOUNT OF THIS DRAWING USD, UNDER JPMORGAN CHASE BANK, N.A. LETTER OF CREDIT NO. REPRESENTS FUNDS DUE US AS ONE OR MORE OF SFPP, L.P., CALNEV PIPE LINE LLC, KINDER MORGAN PIPELINE LLC, KINDER MORGAN OPERATING LIMITED PARTNERSHIP “D,” KINDER MORGAN ENERGY PARTNERS, L.P., KINDER MORGAN G.P. INC., KINDER MORGAN (DELAWARE), INC., KINDER MORGAN INC., KNIGHT MIDCO, INC., KNIGHT HOLDCO DE, INC., OR KNIGHT HOLDCO LLC, OR ANY SUBSIDIARY OF ANY OF THE FOREGOING, HAS FILED A PROCEEDING UNDER THE BANKRUPTCY CODE (TITLE 11 OF U.S. CODE), OR AN INVOLUNTARY PETITION HAS BEEN FILED AGAINST ANY ONE OF SUCH ENTITIES UNDER THE BANKRUPTCY CODE, OR ANY PROCEEDING BY OR AGAINST ANY OF SUCH ENTITIES UNDER ANY OTHER STATE OR FEDERAL BANKRUPTCY OR INSOLVENCY LAW, ASSIGNMENTS FOR THE BENEFIT OF CREDITORS, FORMAL OR INFORMAL MORATORIA, COMPOSITIONS, EXTENSIONS GENERALLY WITH CREDITORS, OR PROCEEDINGS SEEKING REORGANIZATION, ARRANGEMENT, OR OTHER SIMILAR RELIEF IS COMMENCED.”

ALL CORRESPONDENCE AND ANY DRAWINGS HEREUNDER ARE TO BE DIRECTED TO JPMORGAN CHASE BANK, N.A. C/O TREASURY SERVICES, STANDBY LETTER OF CREDIT DEPT. 4TH FL. 10420 HIGHLAND MANOR DRIVE, TAMPA, FLORIDA 33610. CUSTOMER INQUIRY NUMBER IS 1-800-634-1969 CHOOSE OPTION 1. E-MAIL ADDRESS IS: GTS.CLIENT.SERVICES@JPMCHASE.COM. PLEASE HAVE OUR REFERENCE NUMBER AVAILABLE WHEN YOU CONTACT US.

PARTIAL DRAWINGS UNDER THIS LETTER OF CREDIT ARE PERMITTED.

THIS LETTER OF CREDIT IS TRANSFERABLE.

WE HEREBY AGREE WITH YOU THAT DRAFTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS AND CONDITIONS OF THIS LETTER OF CREDIT WILL BE DULY HONORED.

EXCEPT AS OTHERWISE SPECIFIED HEREIN, THE LETTER OF CREDIT IS SUBJECT TO THE INTERNATIONAL STANDBY PRACTICES (1998), INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 590.

THIS LETTER OF CREDIT SHALL BE GOVERNED BY, AND CONSTRUED IN

ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT
REGARD TO PRINCIPLES OF CONFLICT OF LAWS.

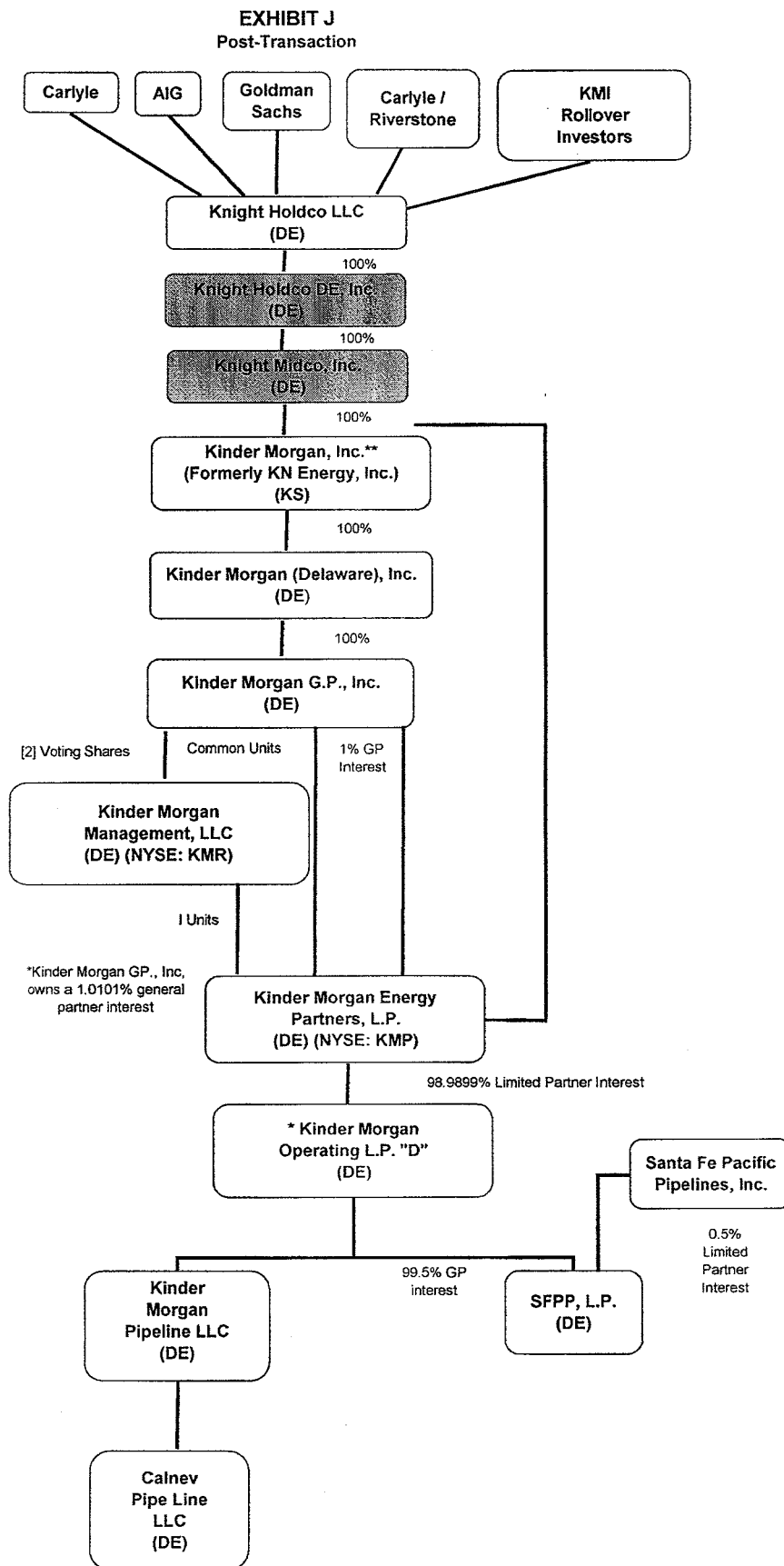
Authorized Signature

HENRY AVELINO
ASSISTANT VICE PRESIDENT

EXHIBIT B

WHERE IS THE "CONTROL" OF SFPP AND CALNEV "POST TRANSACTION"?

Revisions per Kinder Morgan's Amendment to Initial Statement (Schedule 13D/A) filed with the SEC on June 11, 2007



**** On May 30, 2007, KMI merged with Knight Acquisition Co., with KMI as the surviving corporation in the merger.**

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing via U.S. Mail, E-mail, or overnight delivery upon the following:

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Dated at Washington D.C., this 13th day of June, 2007.

/s/ Stephen A. Adducci
Stephen A. Adducci

CERTIFICATE OF SERVICE

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Dated at Washington D.C., this 13th day of June, 2007.

/s/ *Nancilee Holland*
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